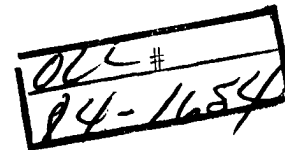
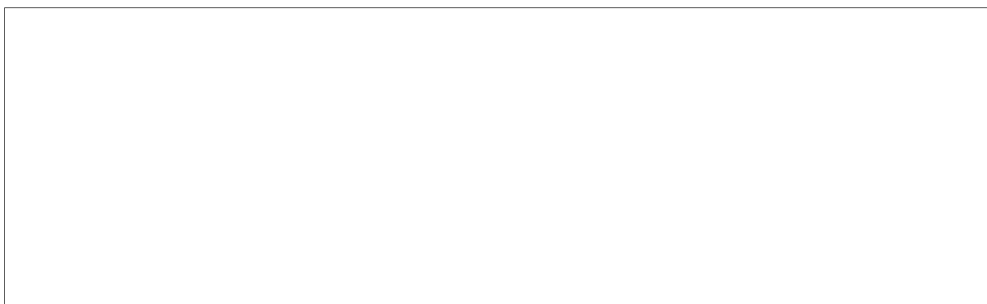


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BT
UNCLAS STATE 110076

E.O. 12356: N/A
TAGS: EAID, MASS
SUBJECT: NEA TESTIMONY TO HAC ON SOUTH ASIA FOREIGN
ASSISTANCE PROGRAM

REF: STATE 36531

1. FYI. FOLLOWING IS THE TEXT OF THE PREPARED STATEMENT
BY NEA DEPUTY ASST SECY HOWARD SCHAFER TO THE (LONG)
SUBCOMMITTEE ON FOREIGN OPERATIONS, HOUSE APPROPRIATIONS
COMMITTEE, ON APRIL 12, 1984.

2. STATEMENT COVERS ESSENTIALLY THE SAME GROUND, IN
ABBREVIATED FORM, AS THE FEB. 6 TESTIMONY TO SOLARZ
SUBCOMMITTEE OF THE HFAC (REFTEL). ONLY TWO CONGRESSMEN
-- CLARENCE "DOC" LONG AND MATT MCHUGH -- WERE PRESENT,
AND THERE WAS LITTLE OR NO PRESS COVERAGE APART FROM AN
AP REPORTER. ROCKY STAPLES AND JOHN STEMPEL ALSO
TESTIFIED ON BEHALF OF AID AND DOD RESPECTIVELY.

3. QUESTIONS FROM LONG AND MCHUGH COVERED: SOVIET AID TO
PAKISTAN; PAKISTAN ECONOMY; ZIA ELECTION PLANS; IMPACT OF
ISLAMIC FUNDAMENTALISM IN PAKISTAN; UN MEDIATION EFFORTS
IN AFGHANISTAN; LOAN/GRANT RATIO OF AID TO INDIA;

INDO-SOVIET ARMS SUPPLY RELATIONSHIP; DISTURBANCES IN THE
PUNJAB; AID PARTICIPANT TRAINING IN NEPAL; INDO-PAKISTAN
RELATIONS; AND THE ECONOMIC AND COMMUNAL SITUATION IN SRI
LANKA.

4. TEXT FOLLOWS. QUOTE:

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

-- I APPRECIATE THIS OPPORTUNITY TO TESTIFY BEFORE THE
SUBCOMMITTEE ON THE ADMINISTRATION'S PROPOSED FOREIGN
ASSISTANCE PROGRAM FOR SOUTH ASIA IN FY 1985. I WILL DO
MY BEST TO ADDRESS YOUR CONCERNS, AND TO ANSWER ANY
QUESTIONS THAT YOU MAY HAVE.

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-- PERHAPS THE SIMPLEST WAY TO PROCEED WOULD BE FIRST TO PRESENT YOU WITH THE LEVELS THAT WE ARE REQUESTING, THEN TO EXPLAIN HOW THE AMOUNTS, MIX, AND DESIGN OF OUR PROPOSED PROGRAMS SERVE U.S. INTERESTS AND OBJECTIVES IN THE REGION.

PROGRAM LEVELS

-- THE FY 1985 APPROPRIATIONS REQUEST FOR SOUTH ASIA IS SUMMARIZED IN THE FOLLOWING TABLE, WITH THE LEVELS OF PREVIOUS YEARS INCLUDED FOR PURPOSES OF COMPARISON:

-- (SEE REFTEL FOR TABLE)

-- LET ME PUT THESE NUMBERS IN PERSPECTIVE. THE GRAND TOTAL OF \$1.1 BILLION REPRESENTS ABOUT 7 PERCENT OF THE ADMINISTRATION'S TOTAL FY 1985 BUDGET REQUEST FOR ASSISTANCE WORLDWIDE, ABOUT THE SAME SHARE GOING TO SOUTH ASIA AS IN FY 1984. TAKING ACCOUNT OF ALL COUNTRIES EXCEPT PAKISTAN, WE ARE PROPOSING A TOTAL BUDGET APPROPRIATION OF \$483.1 MILLION, OR ABOUT 1 PERCENT OVER THE PREVIOUS YEAR. OF THAT AMOUNT, \$225.5 MILLION IS EARMARKED FOR DEVELOPMENT ASSISTANCE, \$256.7 MILLION FOR PL 480 FOOD AID, AND \$825 THOUSAND FOR INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET). CHANGES IN INDIVIDUAL COUNTRY TOTALS ARE LIMITED, WITH THE EXCEPTION OF A 10 PERCENT INCREASE FOR BANGLADESH, WHICH COMPENSATES FOR THE PREVIOUS YEAR'S DECLINE AND IS JUSTIFIED, WE BELIEVE, BY THE POSITIVE SELF-HELP REFORMS RECENTLY UNDERTAKEN BY THE BANGLADESHI GOVERNMENT.

-- THE PAKISTAN PROGRAM INVOLVES CERTAIN SPECIAL

CONSIDERATIONS, WHICH I WILL COVER IN SOME DETAIL LATER IN THIS TESTIMONY. WE ARE REQUESTING \$325 MILLION IN FMS CREDITS AND \$304 MILLION IN A MIX OF ECONOMIC ASSISTANCE PROGRAMS. THESE TOTALS, WHICH REFLECT AN 8.5 PERCENT INCREASE OVER THE FY 1984 ESTIMATES, ARE IN ACCORDANCE WITH THE MULTIYEAR PAKISTAN ASSISTANCE PROGRAM AGREED TO WITH THE PAKISTAN GOVERNMENT IN LATE 1981. WE ARE ALSO REQUESTING ONE MILLION DOLLARS IN IMET FOR PAKISTAN, COMPARED TO \$800,000 FOR FY 1984.

-- IT IS RELEVANT TO ASK HOW THE SIZE OF OUR ASSISTANCE EFFORT COMPARES WITH THAT OF OTHER BILATERAL AND MULTILATERAL DONORS, AND WITH THE MAGNITUDE OF CAPITAL SPENDING BY THE RECIPIENT COUNTRIES THEMSELVES. THE FOLLOWING TABLE, BASED ON 1982-83 DISBURSEMENT DATA, GIVES AN IDEA OF THE RELATIVE MAGNITUDES:

ECONOMIC ASSISTANCE

	U.S. BILATERAL	OTHER BILATERAL	INTERNATIONAL AGENCIES	DOMESTIC INVESTMENT#
BANGLADESH	193.0	639.8	598.5	1,570.8
INDIA	138.0	633.2	2,286.8	36,309.1
NEPAL	19.0	94.6	111.7	427.7
PAKISTAN	150.0	363.4	555.6	4,921.8
SRI LANKA	53.0	268.1	169.9	1,461.6
TOTAL	553.0	1,999.1	3,722.5	44,691.0
SHARE OF TOTAL (PERCENT)		1.1	3.9	7.3
87.7				

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-- DURING THE PERIOD 1978-82, THE UNITED STATES WAS THE SECOND-LARGEST BILATERAL AID DONOR TO BANGLADESH, INDIA, PAKISTAN AND SRI LANKA. WE WERE THE FOURTH LARGEST DONOR TO NEPAL. IN ALL COUNTRIES, THE UNITED STATES HAS PLAYED AN IMPORTANT ROLE IN ECONOMIC DEVELOPMENT, ESPECIALLY IF OUR CONTRIBUTIONS THROUGH MULTILATERAL AGENCIES ARE TAKEN INTO ACCOUNT. HOWEVER, IN TERMS OF DOLLARS AND CENTS OUR EFFORT IS ONLY ONE STRAND AMONG MANY, AND IS IN FACT DWARFED BY THE INVESTMENT UNDERTAKEN BY RECIPIENT GOVERNMENTS AND PRIVATE CITIZENS IN EACH COUNTRY.

U.S. INTERESTS AND OBJECTIVES IN SOUTH ASIA

-- U.S. OBJECTIVES IN SOUTH ASIA REMAIN ESSENTIALLY UNCHANGED FROM PREVIOUS YEARS. WE WANT TO ENCOURAGE THE GROWTH OF STABLE, STRONG, INDEPENDENT STATES LIVING IN PEACE WITH EACH OTHER, FREE OF OUTSIDE INTERFERENCE. WE SUPPORT THE DEVELOPMENT OF SOUND POLITICAL INSTITUTIONS, RESPONSIVE TO THE POPULAR WILL. WE SEEK TO CONTRIBUTE TO THE EFFORTS THE GOVERNMENTS OF THE SOUTH ASIAN COUNTRIES ARE MAKING TO DEVELOP THEMSELVES ECONOMICALLY AND TO BRING ABOUT HIGHER LIVING STANDARDS FOR THEIR PEOPLE IN A REGION WHICH IS AMONG THE WORLD'S POOREST AND MOST POPULOUS. WE WANT TO DETER SOVIET EXPANSIONISM, ESPECIALLY IN LIGHT OF THE STRATEGIC IMPORTANCE OF THE AREA. THESE REGIONAL POLICY GOALS MESH WITH, AND REINFORCE WIDER U.S. OBJECTIVES SUCH AS THE PREVENTION OF THE PROLIFERATION OF NUCLEAR WEAPONS, THE EXTENSION OF HUMAN RIGHTS AND DEMOCRACY, THE RESOLUTION OF REGIONAL CONFLICTS, THE REDUCTION OF NARCOTICS TRAFFIC, AND THE EXPANSION OF OPPORTUNITIES FOR AMERICAN TRADE AND INVESTMENT. IN ORDER TO PURSUE THESE GOALS WITH ANY EFFECTIVENESS, IT IS IMPORTANT TO MAINTAIN AN ATMOSPHERE OF TRUST AND GOODWILL WITH ALL COUNTRIES IN THE REGION, THROUGH COOPERATIVE INTERACTION IN THE FULL RANGE OF ECONOMIC, CULTURAL, EDUCATIONAL AND SCIENTIFIC ACTIVITIES.

HOW OUR PROGRAMS SERVE U.S. INTERESTS AND OBJECTIVES

-- OUR COUNTRY PROGRAMS HAVE BEEN CAREFULLY DESIGNED, WITHIN BUDGETARY CONSTRAINTS, TO SERVE U.S. OBJECTIVES IN THE REGION WHILE ADDRESSING SPECIFIC NEEDS IN EACH COUNTRY. IN PAKISTAN, FOR EXAMPLE, THE EMPHASIS IS ON SECURITY, FOR OBVIOUS REASONS INVOLVING SOVIET EXPANSIONISM IN AFGHANISTAN. IN BANGLADESH, SRI LANKA, AND NEPAL, THE FOCUS IS ON MEETING HUMANITARIAN AND BASIC DEVELOPMENT NEEDS, WHILE IN INDIA THE PROGRAM IS GRADUALLY EVOLVING TO INCORPORATE A GREATER DEGREE OF TECHNOLOGICAL AND INSTITUTIONAL DEVELOPMENT -- REFLECTING A MORE COLLABORATIVE RELATIONSHIP, CLOSELY ATTUNED TO CHANGING NEEDS AND RICH IN PROMISE FOR FUTURE COOPERATION IN A WIDE RANGE OF SCIENTIFIC AND COMMERCIAL APPLICATIONS. IN ALL MAJOR COUNTRIES WE HAVE A MODEST INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET) PROGRAM, OFFERING AN EXTREMELY COST-EFFECTIVE MEANS OF DEVELOPING TIES OF FRIENDSHIP AND PROFESSIONAL COOPERATION BETWEEN THE U.S. ARMED SERVICES AND THEIR COUNTERPARTS OVERSEAS. WE HAVE FOUND, GENERALLY, THAT OUR PROGRAMS NOT ONLY SERVE BROAD POLITICAL AND DEVELOPMENT GOALS, BUT ALSO OPEN UP AN AVENUE FOR WIDER DIALOGUE AND BETTER OVERALL RELATIONS WITH THE COUNTRIES OF THE REGION.

-- LET ME NOW BRIEFLY REVIEW INDIVIDUAL COUNTRY PROGRAMS WITHIN THE CONTEXT OF U.S. INTERESTS AND OBJECTIVES.

-- INDIA. OUR GOALS IN INDIA FALL INTO TWO BROAD CATEGORIES: FIRST, TO ADDRESS THE VAST HUMANITARIAN AND DEVELOPMENT NEEDS IN THAT COUNTRY, PARTICULARLY AMONG THE

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45 PERCENT OF INDIA'S 730 MILLION POPULATION REMAINING BELOW THE NUTRITION-BASED POVERTY LINE; AND SECOND, TO BUILD BRIDGES IN THE AREAS OF SCIENCE AND TECHNOLOGY, TRADE AND INVESTMENT, EDUCATION AND CULTURE WITH THE LARGEST AND MOST POWERFUL COUNTRY IN THE REGION. OUR DEVELOPMENT ASSISTANCE AND PL 480 PROGRAMS, FOCUSSED ON IRRIGATION, AGRICULTURAL RESEARCH, FORESTRY, FAMILY PLANNING, HEALTH, AND NUTRITION, ARE WELL-TARGETED. WE THINK, IN MATCHING UP AMERICAN EXPERTISE WITH INDIAN DEVELOPMENT NEEDS. ALTHOUGH THE PER CAPITA LEVELS ARE QUITE MODEST, WE TRY TO USE AS MUCH LEVERAGE AS POSSIBLE TO ACHIEVE THE MAXIMUM IMPACT.

-- IN THE RECENT PAST AND IN FUTURE YEARS, WE SEE A GRADUAL EVOLUTION OF THE INDIA PROGRAM TOWARDS A MORE COLLABORATIVE RELATIONSHIP, REFLECTING THE SECOND GOAL DESCRIBED ABOVE. THIS WILL INVOLVE FURTHER STRENGTHENING OF LINKS BETWEEN SCIENTIFIC RESEARCH INSTITUTIONS, AND A MORE INTENSIVE APPLICATION OF TECHNOLOGY TO THE DEVELOPMENT PROCESS -- WITH SPIN-OFF EFFECTS, WE HOPE, ON PRIVATE TRADE AND INVESTMENT TIES WHICH ARE ALREADY ON A STRONG GROWTH PATH.

-- BEYOND THE SCOPE OF THE ECONOMIC ASSISTANCE PROGRAM, BUT SERVING A SIMILAR "BRIDGE-BUILDING" GOAL, IS A PROPOSED \$110 MILLION EQUIVALENT BINATIONAL ENDOWMENT, WHICH IS DESIGNED TO CONSERVE OUR DWINDLING SUPPLY OF U.S.-HELD EXCESS RUPEES IN INDIA, THROUGH THE ESTABLISHMENT OF AN INTEREST-BEARING FACILITY TO FUND VALUABLE JOINT STUDY AND EXCHANGE PROGRAMS FOR THE NEXT TWO DECADES IN THE AREAS OF SCIENCE, TECHNOLOGY, EDUCATION, AND CULTURE.

-- BANGLADESH. OUR GOALS IN BANGLADESH ARE ESSENTIALLY HUMANITARIAN, AND THIS IS REFLECTED IN THE DESIGN OF OUR ECONOMIC ASSISTANCE PROGRAM. MAJOR AREAS OF EMPHASIS INCLUDE FAMILY PLANNING, AGRICULTURE AND RURAL EMPLOYMENT, AND NUTRITION. IN KEEPING WITH BANGLADESH'S FINANCIAL NEEDS, OUR ENTIRE FY 1985 PROGRAM -- DEVELOPMENT ASSISTANCE AND PL 480 FOOD AID, AS WELL AS IMET -- WILL BE ON A GRANT BASIS.

-- ANOTHER OBJECTIVE OF OUR ECONOMIC ASSISTANCE PROGRAM IS TO CONTRIBUTE, INsofar AS POSSIBLE, TO THE MOVEMENT TOWARDS LONG TERM POLITICAL STABILITY IN BANGLADESH. SINCE GAINING INDEPENDENCE IN A 1971 WAR WHICH THREATENED THE SECURITY AND STABILITY OF THE ENTIRE SUBCONTINENT, BANGLADESH HAS EXPERIENCED PERIODS OF BOTH POLITICAL CALM AND VIOLENT UPHEAVAL. KEY TO LONG-TERM STABILITY IS THE GOVERNMENT'S PEACEFUL TRANSITION FROM MARTIAL LAW TO REPRESENTATIVE POLITICAL INSTITUTIONS. THE GOVERNMENT HAS RECENTLY LIFTED ITS PARTIAL BAN ON POLITICAL ACTIVITY WHICH WAS IN EFFECT DURING MOST OF 1983, AND HOPES TO PROCEED WITH A SERIES OF LOCAL, PRESIDENTIAL, AND PARLIAMENTARY ELECTIONS LATER THIS YEAR. OUR ASSISTANCE PROGRAM CONTRIBUTES TO THIS PROCESS, AT LEAST INDIRECTLY, BY HELPING TO PROVIDE THE KIND OF ECONOMIC CLIMATE NECESSARY FOR POLITICAL LIBERALIZATION.

-- NEPAL. AS IN BANGLADESH, THE AIM OF U.S. ASSISTANCE TO NEPAL IS TO PROMOTE ECONOMIC AND POLITICAL DEVELOPMENT, WITH A VIEW TO CONTRIBUTING TO STABILITY IN NEPAL AND THEREBY IN THE REGION AS A WHOLE. NEPAL'S GEOGRAPHICAL POSITION BETWEEN CHINA AND INDIA MAKES THE MAINTENANCE OF ITS DOMESTIC STABILITY PARTICULARLY IMPORTANT IN A REGIONAL CONTEXT. LAST YEAR, THE NEPALESE POLITICAL SYSTEM CONTINUED TO ADAPT TO THE 1980 CONSTITUTIONAL REFORMS, WHICH BROADENED POPULAR PARTICIPATION AND INCREASED THE ROLE OF THE NATIONAL LEGISLATURE. FOR THE

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FIRST TIME, AN INCUMBENT PRIME MINISTER WAS DISMISSED BY THAT BODY IN A NO-CONFIDENCE MOTION, AND A NEW LEADER AND COUNCIL OF MINISTERS WERE INSTALLED IN AN ORDERLY AND RAPID TRANSITION.

-- THE AID PROGRAM IN NEPAL WORKS IN DIRECT SUPPORT OF OUR POLICY GOALS THROUGH COOPERATION WITH THE NEPALESE GOVERNMENT IN THE PRIORITY AREAS OF RURAL DEVELOPMENT, RESOURCE CONSERVATION, AND HEALTH AND FAMILY PLANNING. THE \$1.5 MILLION INCREASE FROM FY 1984 WILL PERMIT CONTINUATION OF PRESENT PROGRAMS AS WELL AS NEW PROGRAMS IN AGRICULTURAL RESEARCH AND TRAINING, AN AREA WHICH IS PARTICULARLY IMPORTANT TO NEPAL WHERE 90 PERCENT OF THE WORKFORCE IS ENGAGED IN AGRICULTURE. AS IN BANGLADESH, OUR PROPOSED NEPAL PROGRAM IS ON A 100 PERCENT GRANT BASIS.

-- SRI LANKA. AS A DEVELOPING COUNTRY, SRI LANKA IS NOTABLE FOR ITS UNUSUALLY HIGH "QUALITY OF LIFE" INDICATORS, ITS STRONG DEMOCRATIC TRADITIONS, AND SINCE 1977, ITS MOVEMENT TOWARDS ECONOMIC LIBERALIZATION, WHICH HAS HAD THE EFFECT OF EXPANDING TRADE AND INVESTMENT TIES

WITH THE UNITED STATES AND OTHER OVERSEAS PARTNERS. SRI LANKA IS CURRENTLY EMBARKED UPON AN AMBITIOUS PROGRAM OF CAPITAL DEVELOPMENT INCLUDING MOST NOTABLY THE MAHAWELI HYDROELECTRIC/IRRIGATION/RESETTLEMENT SCHEME WHICH, WE BELIEVE, SERVES A VARIETY OF USEFUL PURPOSES AND WILL REMOVE A NUMBER OF KEY CONSTRAINTS TO FURTHER ECONOMIC GROWTH.

OUR PROPOSED ASSISTANCE PROGRAM FOR FY 1985 CONCENTRATES HEAVILY ON DOWNSTREAM DEVELOPMENT OF THE MAHAWELI RIVER, PRINCIPALLY IRRIGATION WORKS. OTHER AREAS OF EMPHASIS ARE WATER SUPPLY, HEALTH, AND SANITATION. THE PL 480, TITLE I PROGRAM HELPS TO FILL THE NUTRITION GAP AND PROVIDES VERY IMPORTANT BALANCE OF PAYMENTS SUPPORT.

-- AS IN OTHER COUNTRIES, OUR SRI LANKA PROGRAM ALSO SERVES A USEFUL PURPOSE IN CONTRIBUTING TO POLITICAL STABILITY -- A PARTICULARLY IMPORTANT CONSIDERATION THIS YEAR AS SRI LANKA'S LEADERSHIP GRAPPLES IN THE AFTERMATH OF LAST JULY'S VIOLENCE--WITH THE NEED FOR LASTING RECONCILIATION BETWEEN THE COUNTRY'S MAJOR ETHNIC COMMUNITIES. CONTINUED SUPPORT FROM THE UNITED STATES AND OTHER DONORS IS ESSENTIAL IN MAINTAINING A CLIMATE OF CONFIDENCE DURING THIS DIFFICULT PERIOD, AND IN KEEPING UP THE MOMENTUM OF ECONOMIC DEVELOPMENT.

-- PAKISTAN. MR. CHAIRMAN, AS I NOTED EARLIER, THE PAKISTAN PROGRAM INVOLVES A NUMBER OF SPECIAL CONSIDERATIONS. LET ME NOW REVIEW THOSE CONSIDERATIONS IN SOME DETAIL.

-- THE DRIVING FORCE BEHIND THE DESIGN AND MIX OF OUR ASSISTANCE PROGRAM IS OUR PERCEPTION THAT A STABLE PAKISTAN, ONE OF THE WORLD'S LARGEST ISLAMIC STATES, CAN SERVE AS AN ANCHOR FOR THE ENTIRE REGION -- LENDING ITS CONSIDERABLE WEIGHT AND INFLUENCE TO THE CAUSE OF REGIONAL PEACE AND HARMONY. CONVERSELY, AN UNSTABLE, INSECURE PAKISTAN ADDS TO REGIONAL TENSIONS AND INVITES OUTSIDE INTERFERENCE.

-- THE SOVIET INVASION OF AFGHANISTAN IN DECEMBER, 1979, BROUGHT THE ISSUE INTO SHARP RELIEF. UPON ENTERING INTO OFFICE, THIS ADMINISTRATION IN 1981 SOUGHT, AND RECEIVED, THE SUPPORT OF CONGRESS FOR A REVITALIZATION OF OUR SECURITY AND ECONOMIC RELATIONSHIP WITH PAKISTAN. THAT SUPPORT HAS BEEN VITAL IN MAKING IT POSSIBLE FOR US TO IMPLEMENT, AT VERY CLOSE TO FULL FUNDING, THE INITIAL

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THREE YEARS OF OUR 5-6 YEAR PROGRAM OF MILITARY AND ECONOMIC ASSISTANCE. WHAT WE ARE SEEKING IN FY 1985 IS

THE WHEREWITHAL TO CONTINUE INTO THE FOURTH YEAR.

-- THE MOST URGENT GOAL OF OUR ASSISTANCE PROGRAM IN PAKISTAN AT THIS TIME IS TO HELP THAT COUNTRY DEAL WITH THE MULTIFACETED CHALLENGE OF SOVIET EXPANSIONISM IN AFGHANISTAN. FIRST, THERE IS THE IMMEDIATE NEED TO STRENGTHEN PAKISTAN'S MILITARY DEFENSES, AND TO PERSUADE THE SOVIETS THAT FURTHER AGGRESSION WOULD ENTAIL AN UNACCEPTABLE COST. SECOND, OUR ASSISTANCE MAKES IT POSSIBLE FOR PAKISTAN TO CONTINUE ITS PRINCIPLED OPPOSITION TO WHAT THE SOVIETS ARE DOING IN AFGHANISTAN; WITHOUT PAKISTAN'S LEADERSHIP ON THIS ISSUE IN INTERNATIONAL FORUMS, THE POLITICAL COST TO THE SOVIETS WOULD BE MUCH LOWER. THIRD, OUR ASSISTANCE MAKES IT EASIER FOR PAKISTAN TO BEAR THE BURDEN OF SOME 2-3 MILLION AFGHAN REFUGEES WHO HAVE FLED ACROSS THE BORDER. FOR ALL OF THESE REASONS, THE U.S. ASSISTANCE PROGRAM IS VITAL TO STABILITY IN PAKISTAN AND HENCE, WE BELIEVE, IN THE REGION AS A WHOLE.

-- APART FROM IMMEDIATE SECURITY CONSIDERATIONS, OUR PROGRAM ADDRESSES OTHER NEEDS IMPORTANT TO PAKISTAN'S ECONOMIC DEVELOPMENT AND TO U.S. INTERESTS. DESPITE THE HEALTHY ECONOMIC GROWTH RATES OF RECENT YEARS, FUNDAMENTAL WEAKNESSES REMAIN, PARTICULARLY IN THE AGRICULTURAL SECTOR AND IN THE TRADE BALANCE. WITH THESE VULNERABILITIES IN VIEW, OUR \$304 MILLION ECONOMIC ASSISTANCE PACKAGE PROVIDES PAKISTAN WITH SHORT-TERM BALANCE OF PAYMENTS SUPPORT AND HELPS STIMULATE LONG-TERM ECONOMIC AND SOCIAL DEVELOPMENT. OUR 20 ONGOING AND PLANNED DEVELOPMENT PROJECTS ARE HEAVILY CONCENTRATED IN THE AGRICULTURE, POPULATION, HEALTH AND ENERGY SECTORS WITH A SPECIAL INITIATIVE IN PRIVATE SECTOR DEVELOPMENT.

-- OUR ECONOMIC ASSISTANCE PROGRAM ALSO SUPPORTS PAKISTANI EFFORTS TO SUPPRESS OPIUM PRODUCTION AND TO INTERDICT THE TRAFFIC IN ILLICIT NARCOTICS, MUCH OF WHICH ORIGINATES IN PAKISTAN. MINDFUL OF ITS OBLIGATIONS TO THE INTERNATIONAL COMMUNITY, THE PAKISTANI GOVERNMENT HAS TAKEN SIGNIFICANT STEPS TO DEAL WITH THE PROBLEM -- INCLUDING: (A) A BAN ON OPIUM PRODUCTION IN AREAS UNDER CENTRAL GOVERNMENT CONTROL, AND IN AREAS WHERE IT RECEIVES ECONOMIC ASSISTANCE FROM THE UNITED STATES AND OTHER DONORS; (B) THE DESTRUCTION OF OVER 40 LABS LAST YEAR; AND (C) THE PROMULGATION OF TOUGH NEW LAWS. WE ARE PARTICULARLY PLEASED THAT, AS A MEASURE OF THE INCREASING COOPERATION BETWEEN OUR TWO GOVERNMENTS IN NARCOTICS CONTROL, THE PAKISTANIS HAVE JOINED US IN FORMING A SPECIAL NARCOTICS WORKING GROUP. WHILE MUCH MORE NEEDS TO

BE DONE, WE ARE SATISFIED THAT THE GOVERNMENT OF PAKISTAN IS FIRMLY COMMITTED TO CONTROLLING THE PRODUCTION AND TRAFFICKING OF NARCOTICS.

-- THE ASSISTANCE PROGRAM ALSO CONTRIBUTES TO U.S. NUCLEAR NON-PROLIFERATION GOALS. WE BELIEVE STRONGLY THAT A PROGRAM OF SUPPORT WHICH ENHANCES PAKISTAN'S SENSE OF SECURITY HELPS REMOVE THE PRINCIPAL UNDERLYING INCENTIVE FOR THE ACQUISITION OF A NUCLEAR WEAPONS CAPABILITY. THE GOVERNMENT OF PAKISTAN UNDERSTANDS OUR DEEP CONCERN OVER THIS ISSUE. WE HAVE MADE CLEAR THAT THE RELATIONSHIP BETWEEN OUR TWO COUNTRIES, AND THE PROGRAM OF MILITARY AND ECONOMIC ASSISTANCE ON WHICH IT RESTS, ARE ULTIMATELY INCONSISTENT WITH PAKISTAN'S DEVELOPMENT OF A NUCLEAR EXPLOSIVES DEVICE. PRESIDENT ZIA HAS STATED PUBLICLY THAT PAKISTAN WILL NOT MANUFACTURE OR TEST A NUCLEAR EXPLOSIVE

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DEVICE OF ANY KIND.

-- WE ARE AWARE, OF COURSE, OF CONCERNS ABOUT THE IMPACT UPON INDO-U.S. AND INDO-PAKISTAN TIES OF OUR DEFENSE SUPPLY RELATIONSHIP WITH PAKISTAN. THE INDIAN GOVERNMENT HAS AT TIMES EXPRESSED APPREHENSION ABOUT THAT RELATIONSHIP. OUR SUPPLY OF ECONOMIC AND MILITARY ASSISTANCE TO PAKISTAN IS NOT AIMED AGAINST INDIA. DESPITE SOME MISINFORMED PUBLIC SPECULATION, THE MODERATE NUMBER OF WEAPONS WE ARE PROVIDING PAKISTAN WILL NOT UPSET THE CURRENT BALANCE OF MILITARY POWER IN THE REGION, WHICH HEAVILY FAVORS INDIA.

-- IN SUMMARY, THE ADMINISTRATION AND THE CONGRESS CAN TAKE SATISFACTION FROM THE CONSIDERABLE PROGRESS THAT WE HAVE SEEN IN SOUTH ASIA, AND FROM OUR OWN CONTRIBUTION TO THAT PROGRESS. WE BELIEVE ECONOMIC DEVELOPMENT IN THE REGION BENEFITS THE PEOPLE OF THE UNITED STATES AS MUCH AS IT DOES THE PEOPLE OF SOUTH ASIA. THERE ARE, OF COURSE, LIMITS TO THE CONTRIBUTION WE CAN MAKE. BUT TO THE EXTENT POSSIBLE, WE SHOULD STAND READY TO ASSIST THIS REGION -- WHICH CONTAINS ABOUT ONE-FOURTH OF THE WORLD'S POPULATION -- IN ITS SEARCH FOR PEACE, PROSPERITY AND STABILITY. IT IS IMPORTANT FOR BOTH THE ADMINISTRATION AND THE CONGRESS TO CONTINUE PROVIDING WHAT SUPPORT WE CAN TO THIS PROCESS.

5. KABUL WILL RECEIVE COPY VIA POUCH.
SHULTZ

END OF MESSAGE

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